GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium
Special Session

Bill #	HB0010	**Title:**	Increase business equipment tax exemption, provide reimbursement, adjust GTB
Primary Sponsor:	Lake, Bob	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$3,341,502	$14,618,270	$14,311,940	$15,014,766
Revenue:				
General Fund	($1,108,659)	($2,599,223)	($1,747,344)	($2,303,602)
University Fund	($71,774)	($195,496)	($203,993)	($212,855)
Net Impact-General Fund Balance	($4,450,161)	($17,217,493)	($16,059,284)	($17,318,368)

Description of fiscal impact: This legislation would increase the exemption for class 8 property to $80,000. Local governments and TIFs would be reimbursed under the entitlement share and school districts would be reimbursed through the guaranteed tax base funding for loss of class eight property taxes. The Department of Revenue is provided an appropriation of $493,020 to administer the exemption of class eight property.

FISCAL ANALYSIS

Assumptions:

Reduction in the Taxable Value of Class 8 Property

1. This bill provides an exemption on the first $80,000 of market value of class 8 property owned by an individual or business entity beginning in tax year 2008. The bill also exempts personal property items with a market value of less than $100. The personal property exemption is not expected to have a fiscal impact.
2. In tax year 2006, 17,328 business entities or individuals were subject to class 8 property tax. This legislation would remove 10,795 class 8 business owners from the tax rolls.

3. The total statewide taxable value decrease from this exemption, had it been in effect in 2006, would have been $29,787,723.
4. Local governments abate $783,124 of this property from taxation. The statewide mills are levied on this property, but this value must be removed when calculating the impact on local revenues.
5. Approximately $864,192 of the statewide value is located in tax increment financing (TIF) districts.

<u>Increase in Taxable Value of Class 12 Property</u>

6. The total market value of class 12 property in Montana was $1,171,178,046 in calendar year 2006. Under current law, the tax rate is an annually-calculated, blended rate composed of all the commercial tax rates. In calendar year 2006, the class 12 tax rate was 3.55%, and the total taxable value of class 12 property was $41,576,814.
7. If this legislation been in effect, the class 12 tax rate would have been 3.58% in calendar year 2006. The taxable value increase in class 12 property would have been $351,353 ($1,171,178,046 x (3.58% - 3.55%)). The class 12 tax rate is projected to remain the same through FY 2011. The impact of the class 12 tax rate change is limited to state, university, and local schools and government revenues because no class 12 property is located within tax increment financing districts.

<u>General Fund Revenue Reduction</u>

8. The reduction in class 8 property that is subject to the statewide 95 education mills and 1.5 vocational and technical mills is $28,923,531, which is the total statewide taxable value decrease minus the value located in TIF districts ($29,787,723 - $864,192).
9. The statewide 95 mill levy and the 1.5 college of technology mill levy must be applied to the estimated taxable value of the exempted property to calculate the loss in state general fund revenue. The average statewide mill applied to the taxable value is 95.54. The tax year 2006 revenue loss associated with the 95 and 1.5 mill levies would have been $2,763,354 ($28,923,531 x 0.09554).
10. The class 8 growth rate forecast by HJR 2 is 4.3% for FY 2008 and FY 2009. For the purposes of this fiscal note, the growth rate is assumed to be 4.3% for FY 2010 and FY 2011.
11. The class 8 revenue loss associated with the 95 and 1.5 mill levies is projected to be:
    - $2,882,178 ($2,763,354 x 1.043) in tax year 2007;
    - $3,006,112 ($2,882,178 x 1.043) in tax year 2008;
    - $3,135,375 ($3,006,112 x 1.043) in tax year 2009;
    - $3,270,196 ($3,135,375 x 1.043) in tax year 2010; and
    - $3,410,814 ($3,270,196 x 1.043) in tax year 2011.
12. Unlike other classes of property, class 8 property payments are not based on the prior calendar year taxable value as are other classes of property. Class 8 property not liened to real property (38%) is taxed in the spring of the calendar year. Class 8 property liened to real property (62%) is collected in the following fiscal year when the normal property tax payments are made in November and May. Therefore, FY 2009 taxable value is 62% of calendar year 2008 taxable value and 38% of calendar year 2009 taxable value, etc. The bill will cause a general fund revenue loss of:
    - $1,142,323 ($3,006,112 x 0.38) in FY 2008;
    - $3,055,232 (($3,006,112 x 0.62) + ($3,135,375 x 0.38)) in FY 2009;
    - $3,186,607 (($3,135,375 x 0.62) + ($3,270,196 x 0.38)) in FY 2010; and
    - $3,323,631 (($3,270,196 x 0.62) + ($3,410,814 x 0.38)) in FY 2011.
13. The class 12 revenue increase associated with the 95 and 1.5 mill levies is projected to be $33,664 ($351,353 x 0.09554) in FY 2008 through FY 2011.
14. The total fiscal year general fund revenue loss will be:
    - $1,108,659 ($1,142,323 - $33,664) in FY 2008;
    - $3,021,568 ($3,055,232 - $33,664) in FY 2009;

- $3,152,943 ($3,186,607 - $33,664) in FY 2010; and
- $3,289,967 ($3,323,631 - $33,664) in FY 2011.

University Revenue Reduction

15. The university 6 mills is levied on the full amount of class 8 taxable value (the TIF districts does not receive the 6 mill revenue). The tax year 2006 revenue loss association with the 6 mill levy would have been $178,726 ($29,787,723 x 0.006).
16. The class 8 growth rate forecast by HJR 2 is 4.3% for FY 2008 and FY 2009. For the purposes of this fiscal note, the growth rate is assumed to be 4.3% for FY 2010 and FY 2011.
17. The class 8 revenue loss associated with the 6 mill levy will be:
    - $186,412 ($178,726 x 1.043) in tax year 2007;
    - $194,427 ($186,412 x 1.043) in tax year 2008;
    - $202,788 ($194,427 x 1.043) in tax year 2009;
    - $211,508 ($202,788 x 1.043) in tax year 2010; and
    - $220,602 ($211,508 x 1.043) in tax year 2011.
18. By fiscal year, the class 8 university revenue loss will be:
    - $73,882 ($194,427 x 0.38) in FY 2008;
    - $197,604 (($194,427 x 0.62) + ($202,788 x 0.38)) in FY 2009;
    - $206,101 (($202,788 x 0.62) + ($211,508 x 0.38)) in FY 2010; and
    - $214,964 (($211,508 x 0.62) + ($220,602 x 0.38)) in FY 2011.
19. The fiscal year class 12 university system revenue increase will be $2,108 ($351,353 x 0.006) for FY 2008 through FY 2011.
20. The total university system revenue loss will be:
    - $71,774 ($73,882 - $2,108) in FY 2008;
    - $195,496 ($197,604 - $2,108) in FY 2009;
    - $203,993 ($206,101 - $2,108) in FY 2010; and
    - $212,855 ($214,964 - $2,108) in FY 2011.

TIF District Revenue Reduction

21. The proposed legislation would reimburse TIF districts for the loss of revenues from the class 8 phase-out. The taxable value of class 8 property within TIF districts is projected to grow 4.3%. The taxable value of TIF districts will be:
    - $901,352 ($864,192 x 1.043) in tax year 2007;
    - $940,110 ($901,352 x 1.043) in tax year 2008;
    - $980,535 ($940,110 x 1.043) in tax year 2009;
    - $1,022,698 ($980,535 x 1.043) in tax year 2010; and
    - $1,066,674 ($1,022,698 x 1.043) in tax year 2011.
22. By fiscal year, the taxable value reduction is:
    - $357,242 in FY 2008 ($940,110 x .38);
    - $955,472 in FY 2009 ($940,110 x .62 + $980,535 x .38);
    - $996,557 in FY 2010 ($980,535 x .62 + $1,022,698 x .38); and
    - $1,039,409 in FY 2011 ($1,022,698 x .62 + $1,066,674 x .38).
23. In calendar year 2006 (FY 2007), the average statewide mill levy was 526.84. TIF districts do not receive the revenue from the 6 mill levy; therefore, TIF districts are subject to 520.84 mills. Assuming that these mills continue to grow at the calendar year 2000 through calendar year 2006 rate of 3.4%, the mills are expected to be 538.55 in FY 2008, 556.86 in FY 2009, 575.79 in FY 2010, and 595.37 in FY 2011.

24. For the purposes of this fiscal note, it will be assumed the reduction in class 8 taxable value is taken from the value of the increment. This results in a property tax revenue reduction within TIF districts of:
    - $192,392 ($357,242 x 0.53855) in FY 2008;
    - $532,063 ($955,472 x 0.55686) in FY 2009;
    - $573,810 ($996,557 x 0.57579) in FY 2010; and
    - $618,832 ($1,039,409 x 0.59537) in FY 2011.

<u>Local Government Impact</u>

25. The proposed law also reimburses local governments and schools. Local governments abate approximately $783,124 of taxable value in the state from taxation. Therefore, the value of class 8 property taxable to local governments is the statewide taxable value minus the abatement and minus the taxable value located in TIF districts, or $28,140,407 ($29,787,723- $783,124 - $864,192). Using the HJR2 growth rate of 4.3%, the expected reduction in taxable value of class 8 property in local jurisdictions is expected to be:
    - $29,350,445 in 2007 ($28,140,407 x 1.043);
    - $30,612,514 in 2008 ($29,350,445 x 1.043);
    - $31,928,852 in 2009 ($30,612,514 x 1.043);
    - $33,301,793 in 2010 ($31,928,852 x 1.043); and
    - $34,733,770 in 2011 ($33,301,793 x 1.043).
26. The statewide average mill levy in calendar year 2006 is 526.84 mills. Removing the state's 101.54 (95.54 + 6) mills, local governments and school have an estimated average statewide mill levy of 425.30 (526.84 – 101.54). Approximately 227.15 of these mills are school mills while 198.16 are local government mills. Local government and school mills grew 4.35% annually from calendar year 2000 to calendar year 2006. This 4.35% growth is assumed to continue through FY 2011, resulting in estimated average local government mills (without school mills) of 206.78 in 2007, 215.77 in 2008, 225.16 in 2009, 234.96 in 2010, and 245.18 in 2011. The class 8 tax year reduction in revenue to local governments by calendar year would be:
    - $6,605,412 in 2008 ($30,612,514 x .21577);
    - $7,189,135 in 2009 ($31,928,852 x .22516);
    - $7,824,443 in 2010 ($33,301,793 x .23496); and
    - $8,515,893 in 2011 ($34,733,770 x .24518).
27. By fiscal year, the impact would be:
    - $2,510,056 in FY 2008 ($6,605,412 x .38);
    - $6,827,227 in FY 2009 ($6,605,412 x .62 + $7,189,135 x .38);
    - $7,430,552 in FY 2010 ($7,189,135 x .62 + $7,824,443 x .38); and
    - $8,087,194 in FY 2011 ($7,824,443 x .62 + $8,515,893 x .38).
28. This legislation would result in an increase in the taxable value of class 12 property of $351,353 each fiscal year, resulting in revenue increases of:
    - $75,813 in FY 2008 ($351,353 x .21577);
    - $79,111 in FY 2009 ($351,353 x .22516);
    - $82,552 in FY 2010 ($351,353 x .23496); and
    - $86,143 in FY 2011 ($351,353 x .24518).
29. The total impact to local governments (minus schools), which is reimbursed to local governments is estimated to be:
    - $2,434,243 in FY 2008 ($2,510,056 - $75,813);
    - $6,748,116 in FY 2009 ($6,827,227 - $79,111);
    - $7,348,000 in FY 2010 ($7,430,552 - $82,552); and

- $8,001,050 in FY 2011 ($8,087,194 - $86,143).

30. The total reimbursement from the general fund to local governments and TIF districts (not including schools) is expected to be:
    - $2,626,635 in FY 2008 ($2,434,243 + $192,392);
    - $7,280,179 in FY 2009 ($6,748,116 + $532,063);
    - $7,921,810 in FY 2010 ($7,348,000 + $573,810); and
    - $8,619,883 in FY 2011 ($8,001,050 + $618,832).

School Reimbursement

31. Statewide average school mills in calendar year 2006 was 227.15 (see assumption 26). Using actual FY 2007 mills multiplied times the taxable value loss of each district in TY 2008 levels, the loss in taxes is would have been $6.6 million. These mills are levied on the same taxable value as the local government mills, which are shown in assumption 25.
32. The change in Class 8 property tax values in HB 10 will impact the state's obligation to fund the guaranteed tax base aid for school districts and counties.
33. Property tax values for school districts will decrease by $30.6 in FY 2009 (calendar year 2008) or 1.4%. There will be a one-year guaranteed tax base aid (GTB) cost increase. The guaranteed level is determined by the prior year taxable values applied against current year taxable values. The lower guaranteed level in FY 2008 will apply to the lower taxable values in FY 2009 and cause increased state contribution as districts levy fewer mills to compensate for the decrease in taxable value. The one-time increased expenditures will be $0.7 million in FY 2009 for district levies as calculated by the school fund model.
34. Countywide retirement GTB will increase $250,000 based on a historical average of 28% of the costs paid by the state and FY 2006 county levies equal to $63.8 million (1.4% times 63.8 million local levies times 28%).
35. In FY 2010 and beyond the lower overall level of taxable values will not have a significant impact in statewide guaranteed tax base aid costs.
36. Section 7 of the bill increases the GTB ratio to schools district general fund budgets from 175% to 184% beginning in FY 2009 increasing the GTB distribution to schools by $5.5 million dollars to reduce the property tax impact to districts.
37. Section 7 of the bill increases the GTB ratio for countywide retirement from 121% to 122% beginning in FY 2009 increasing the GTB distribution to schools by $0.7 million dollars to reduce the property tax impact to districts.

Business Tax Revenue Increase

38. With lower property taxes, businesses will have lower property tax expenses to deduct in calculating taxable net revenue. This bill would reduce property taxes businesses pay by:
    - $3,807,068 ($1,108,659 + $71,774 + $192,392 + $2,434,243) in FY 2008;
    - $17,647,242 ($3,021,568 + $195,496 + $532,063 + $6,748,116 + $7,150,000) in FY 2009;
    - $17,478,746 ($3,152,943 + $203,993 + $573,810 + $7,348,000 + $6,200,000) in FY 2010; and
    - $18,322,704 ($3,289,967 + $212,855 + $618,832 + $8,001,050 + $6,200,000) in FY 2011.
39. Corporations that do business in Montana and other states are required to report their Montana property on their corporation license tax returns. Of this property, 66.65% was reported by corporations that had positive taxable income. It is assumed that the same proportion of total business property is owned by businesses with positive net income.
40. The corporation license tax rate is 6.75%. It is assumed that the average marginal tax rate on business income reported on individual income tax returns is also 6.75%.

41. The increase in corporate tax liability is estimated to be $171,275 ($3,807,068 x 0.6665 x 0.0675) in FY 2009 $793,927 ($17,647,242 x 0.6665 x 0.0675) in FY 2010, and $786,347 ($17,478,746 x 0.6665 x 0.0675) in FY 2011.

Administrative Expenses

42. To implement this section, three additional FTE will be required. Two auditors will be required by the Property Assessment Division (PAD) and one auditor will be required by the Business Tax and Valuation (BTV) unit of the Business and Income Tax division. The costs associated with the 3 additional FTE are: $170,253 for personal services in FY 2008, $167,655 in FY 2009, $171,846 in FY 2010, and $176,142 in FY 2011; $16,494 in FY 2008, $17,838 in FY 2009, and increasing by 2.5% through FY 2011 for operating expenses; and a one-time cost of $17,400 to setup the auditors. In addition, the department would also need to conduct taxpayer education to inform taxpayers about the changes to taxation of personal property: $1,000 is needed for radio; $2,200 is needed for television; and $12,000 for statewide coordination.
43. This bill would require the department to allocate the class 8 exemption by owner. The distribution must be based on the ratio of the market value of class 8 property within a given levy district to the total market value of all class 8 property owned. This will require significant changes to current property tax databases (MODS and BEVS) and to the new Orion system under development. Programmers estimate it will cost $493,020 to make the required modifications.
44. The total administrative costs to implement this section is $712,367 in FY 2008, $185,493 in FY 2009, $190,130 in FY 2010, and $194,883 in FY 2011.

Personal Services	$170,253	$170,253	$171,846	$176,142
Operating Expenses	$526,914	$17,838	$18,284	$18,741
Equipment	$17,700	$0	$0	$0
Local assistance	$0	$7,150,000	$6,200,000	$6,200,000
Transfer to Local Governmer	$2,626,635	$7,280,179	$7,921,810	$8,619,883
TOTAL Expenditures	$3,341,502	$14,618,270	$14,311,940	$15,014,766
Funding of Expenditures:				
General Fund (01)	$3,341,502	$14,618,270	$14,311,940	$15,014,766
TOTAL Funding of Exp.	$3,341,502	$14,618,270	$14,311,940	$15,014,766
Revenues:				
General Fund (01)	($1,108,659)	($2,599,223)	($1,747,344)	($2,303,602)
University System (02)	($71,774)	($195,496)	($203,993)	($212,855)
TOTAL Revenues	($1,180,433)	($2,794,719)	($1,951,337)	($2,516,457)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($4,450,161)	($17,217,493)	($16,059,284)	($17,318,368)
University System (02)	($71,774)	($195,496)	($203,993)	($212,855)

Effect on County or Other Local Revenues or Expenditures:

1. This fiscal note assumes that local governments and schools are fully reimbursed for their loss.

Long-Range Impacts:

1. The impact of this legislation will continue to grow in the future.

Technical Note:

1. The Department of Revenue is provided an appropriation of $493,020 in this bill to administer the property tax exemption for class eight property. DOR estimates the additional administrative costs to implement this section is $219,347 in FY 2008, $185,493 in FY 2009, $190,130 in FY 2010, and $194,883 in FY 2011. At the time of preparing this fiscal note there is no appropriation in HB 2 for this additional cost.
2. The appropriation in HB 2 for GTB is short by $1.15 million for FY 2009.
3. There is no appropriation to reimburse the Montana University System for the 6 mill revenue loss.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*